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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Status, Progress, And Problems In Federal Agency Accounting During 15 Months Ended September 30, 1976

During the 15 months ended September 30, 1976, the Comptroller General approved the designs of 32 executive agency accounting systems. Fifty-two percent of the Government's accounting systems have now been approved. Major problems delaying approval of the remaining accounting systems are listed.

In the last 4 years, 54 Department of Defense accounting systems have been approved. Three departments, however, continue to progress little: the Departments of the Interior, Health, Education, and Welfare, and State.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

Under section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), the head of each executive agency is responsible for establishing and maintaining accounting systems that conform to principles and standards prescribed by the Comptroller General. These principles and standards were prescribed in 1952, but agencies' actions to obtain the required approval have been varied.

Our work involves two phases. First, we approve the principles and standards the agencies adopt for their accounting systems. Then, we approve the designs of the systems, including the basic controls provided for in the automatic data processing of a computerized system. At September 30, 1976, principles and standards had been approved for 98 percent of the 338 accounting systems subject to approval. Fifty-two percent of the system designs had been approved.

Some Federal agencies have worked hard to establish good accounting systems to be approved by the Comptroller General. These include the Departments of Labor, the Treasury, Commerce, and Transportation, which have all or most of their accounting systems approved. The Department of Agriculture is also pursuing a commendable program of accounting systems development, although its completion is several years away. We approved a departmental system for the Department of Housing and Urban Development, but the Department has never completed the designs of its subsystems.

Until recently, the Department of Defense made little progress in obtaining approval of its systems. However, in the last 4 years 54 systems have been approved. Most of this remarkable progress has been in the Navy and the Air Force, with the Army and some of the Defense agencies making less progress.

Three departments progressed so little that we are concerned whether they will have approved accounting systems in the near future. These departments are the following:

- The Department of the Interior has 19 accounting systems. Although 12 have been approved, progress in recent years has been very slow. It seems that too few systems accountants are being devoted to this work.
- The Department of Health, Education, and Welfare has 19 accounting systems subject to approval. Only five have been approved. The unapproved systems include the Social Security Administration system, one of the largest in the Government. The Department has consistently failed to meet target dates it established to submit the systems to us for approval. In a number of cases, systems that were scheduled to be submitted in 1971 or 1972 still have not been submitted. Recently, the Department advised us that it has given this work a high priority. We are now evaluating two of the Department's accounting systems.
- The Department of State has seven accounting systems; four have been approved and three remain unapproved. The unapproved three, however, include the two most important systems the Department has--the general accounting systems for the Department and the Agency for International Development. The Department has been missing target dates for submitting its general accounting system since 1967. In recent years the Department has brought effective systems development leadership into the program, but too little staff effort is being devoted to the work and progress therefore is slow.

Because of numerous violations of the Anti-Deficiency Act, the Director of the Office of Management and Budget on May 16, 1977, requested the Department of Defense to update and submit for approval by August 15, 1977, its administrative control of funds regulations. On June 28, 1977, the Director requested all other departments and the major independent agencies to update and revise their administrative control of funds regulations and submit them for approval by October 1, 1977. We concur in both actions. However, there are many unapproved accounting systems which have defects and inadequacies other than, or in addition to, the area of fund control.

It is very important that agencies have approved systems in operation because such systems can produce the type of financial information that agency officials and the Congress need to make financial decisions. The problems that can occur when good accounting systems do not exist have received considerable attention in the past year. The financial plight of New York City and the contribution of poor accounting practices to that situation are well known. Poor practices in unapproved accounting systems of the Department of the Army and the District of Columbia government were also reported to the Congress by us during the past year. In the Army's case, over \$200 million in overobligation of funds occurred. In the District's case, the accounting was so unreliable that an outside certified public accounting firm called it "misleading, out-of-date and inaccurate." A good accounting system can prevent these kinds of problems.

Our objective has been to initially approve all executive branch accounting systems by the end of fiscal year 1980. This is an ambitious undertaking when one considers that it has taken 26 years to get 52 percent of the systems approved. But the objective could be reached if departments and agencies give this work the high priority it deserves in the assignment of resources and qualified personnel.

In examining future budget requests and the use of funds, we recommend that the Office of Management and Budget and the Congress make sure that the executive departments and agencies are devoting sufficient resources to qualify their accounting systems for approval by the Comptroller General.

Approval of an accounting system design becomes meaningful only when an agency operates its accounting system in accordance with that design. For this reason, from time to time we review total or partial accounting systems to see if they are

- operating in accordance with our approval and

- consequently furnishing reliable financial data in a meaningful manner to the agencies and the Congress.

The results of recently completed reviews are discussed in chapter 4 of this report.

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We are sending copies of this report to the Director, Office of Management and Budget, and heads of other departments and agencies.


Comptroller General
of the United States

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

This seventh report on the status, progress, and problems in Federal agency accounting covers the 15-month period ended September 30, 1976, and responds to the recommendation of the House Committee on Government Operations (H. Rept. 1159, 90th Cong., 2d sess. 3 (1968)).

With the exception of Government corporations subject to the Government Corporation Control Act (31 U.S.C. 841 et seq.) and certain quasi-government entities that, by law, are subject to that act, the accounting systems of all executive departments and agencies are required by 31 U.S.C. 66a to adopt accounting systems that conform to principles and standards prescribed by the Comptroller General and by 31 U.S.C. 66(b) to obtain his approval that their accounting systems do in fact so conform.

We are reporting information primarily obtained through our cooperative accounting systems work with the departments and agencies and through the evaluation and approval processes.

Chapter 2 summarizes the status of Federal agency accounting systems at September 30, 1976. Chapter 3 is our observation of agency progress and problems during the 15 months ended September 30, 1976. Chapter 4 contains observations resulting from our reviews of accounting systems in operation.

CHAPTER 2

STATUS OF DEPARTMENT AND AGENCY

ACCOUNTING SYSTEMS AT SEPTEMBER 30, 1976

COMPTROLLER GENERAL REQUIREMENTS

The head of each executive agency is responsible for establishing and maintaining systems of accounting which conform to the principles, standards, and related requirements prescribed by the Comptroller General, 31 U.S.C. 66a. A two-phase procedure has been established for examining agency accounting systems that are submitted to the Comptroller General for approval--approval being agreement that the proposed systems conform to the prescribed principles and standards. Under this two-phase procedure, we first examine the accounting principles and standards established by the agency as the basis for its accounting system. After the principles and standards are approved, the next step is to get approval of the design--procedures and practices that will be followed to perform the agency's accounting--to determine whether it conforms to the approved principles and standards. In addition, after the design of the system is implemented, we review the accounting systems of the agencies from time to time to see that they are being operated in accordance with their designs and are serving management needs.

STATUS OF APPROVALS

During the 15-month period, the designs of 32 accounting systems were approved. Allowing for reapprovals and adjustments, a net increase of 29 accounting system approvals resulted. Accounting system design approvals totaled 177 at September 30, 1976, out of a total of 338 identified systems subject to approval. Three statements of principles and standards were approved during the period, making a total of 333 systems now covered by approved principles and standards.

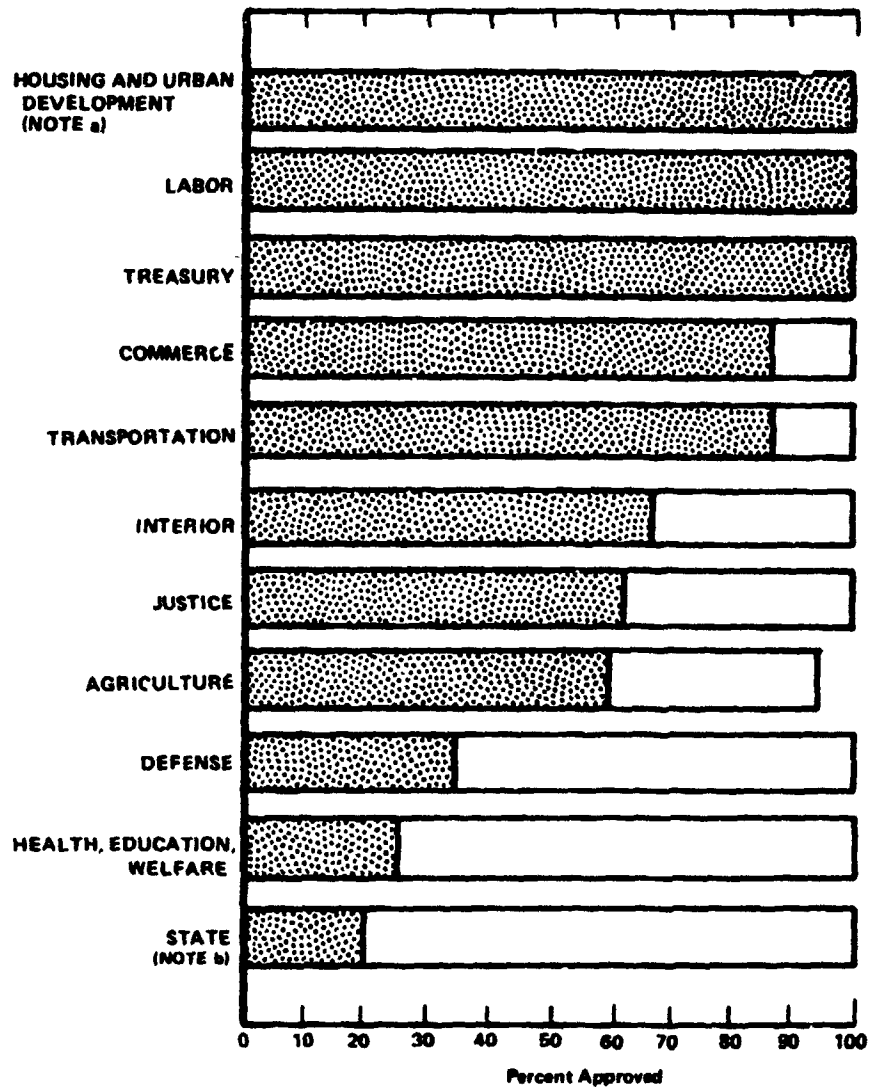
The number of accounting systems identified by agencies as being subject to approval at the beginning of the period was 286. During the period the number of systems subject to approval increased by 52 (2 in civil agencies and 50 in Defense). The increase primarily resulted from a change in the way the Navy Department has identified its systems, rather than an increase in the number of systems per se. (See p. 13.) We expect some further increases in the future. The Social Security Administration is now shown as having only one accounting system subject to approval

because the exact number of systems has not been agreed upon. We expect it will have about 10 identifiable systems. We have also shown the D.C. government with only one system. It has numerous accounting systems but has not as yet identified how many.

Although the number of approved systems increased by 29 during the period, the percentage of approvals remained the same, 52 percent, because of the increase in the number of systems subject to approval. The chart on the following page shows the status of approval of accounting systems for each department.

Of the 11 departments, 10 had principles and standards approved for all of their accounting systems, but only 3 had all of their accounting system designs approved. In the Department of Housing and Urban Development, the designs of the subsystems within its approved system had not yet been completed.

APPROVAL STATUS BY DEPARTMENT **At September 30, 1976**



DESIGNS AND PRINCIPLES AND STANDARDS



PRINCIPLES AND STANDARDS ONLY

a/ Designs of subsystems have not been completed.

b/ While four of seven systems have been approved, the largest systems accounting for the major portion of State's operations have not been approved

STATUS OF ACCOUNTING SYSTEMS

The table below summarizes the status of accounting systems subject to approval at September 30, 1976.

	<u>Principles and standards</u>		<u>Designs</u>		<u>Subject to approval</u>
	<u>Approved</u>	<u>Unapproved</u>	<u>Approved</u>	<u>Unapproved</u>	
Civil departments and agencies:					
Agriculture	16	1	10	7	<u>a/17</u>
Commerce	8	-	7	1	8
Health, Education, and Welfare	19	-	5	14	<u>b/19</u>
Housing and Urban Development	1	-	1	-	1
Interior	19	-	12	7	19
Justice	13	-	8	5	13
Labor	2	-	2	-	2
State	7	-	4	3	7
Transportation	8	-	7	1	8
Treasury	18	-	18	-	<u>c/18</u>
Executive Office of the President	4	-	4	-	4
Independent agencies	<u>52</u>	<u>4</u>	<u>41</u>	<u>15</u>	<u>56</u>
Total	<u>167</u>	<u>5</u>	<u>119</u>	<u>53</u>	<u>172</u>
Percent	97	3	69	31	100
Department of Defense:					
Air Force	43	-	28	15	43
Army	29	-	5	24	<u>d/29</u>
Navy (including Marine Corps)	75	-	20	55	75
Defense agencies	<u>18</u>	<u>-</u>	<u>5</u>	<u>13</u>	<u>18</u>
Total	<u>165</u>	<u>-</u>	<u>58</u>	<u>107</u>	<u>165</u>
Percent	100	-	35	65	100
District of Columbia government					
	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>e/1</u>
Total	<u>333</u>	<u>5</u>	<u>177</u>	<u>161</u>	<u>338</u>
Percent	98	2	52	48	100

a/Number of systems will be reduced to six when planned consolidations have been made.

b/Number of systems in the Social Security Administration is expected to increase by nine.

c/The bullion accounting system has not been included as it is to be merged into the Financial Management Information System, a new accounting system planned by the Bureau of the Mint. Work on the new system has been deferred.

d/For the most part, these systems are the principal automated ones.

e/Actual number of accounting systems not yet determined.

design. (The same system design had been implemented at six other Air Force printing and duplicating plants.) We found, however, that Robins had no procedures for obtaining reimbursement from the printing plant industrial fund for the cost of support services, including the costs to (1) prepare and maintain the employment records of civilian personnel assigned to the printing plant, (2) process and prepare the payroll and maintain related records for civilian employees, and (3) provide fire protection, plant security, and automatic data processing.

Officials at the Air Force Accounting and Finance Center stated that the Air Force was in the process of revising instructions to require that all Air Force industrially funded printing plants reimburse host installations for support services. 1/

Bureau of Indian Affairs,
Department of the Interior

The Bureau of Indian Affairs accounting system design was approved in January 1953. The system is being redesigned and will be submitted to the Comptroller General for approval in fiscal year 1978.

We reported to the Secretary of the Interior that the system being operated needed improvements in

- controlling receivables and advances,
- recording and reporting obligations,
- taking available discounts,
- controlling and documenting its automated personnel-payroll system, and
- managing and accounting for personal property.

We made several recommendations to the Secretary of the Interior to improve the Bureau's accounting system. The Department agreed with all of our recommendations and advised us of specific actions taken, underway, or planned by the Bureau for improving accounting practices throughout the organization. 2/

1/FGMSD-76-4, Aug. 18, 1975.

2/FGMSD-76-15, Mar. 11, 1976.